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STATE FOR EB/CIP/BA, NEA/ELA
USTR FOR HINCKLEY

E.O. 12958: N/A
TAGS: ECPS ECON ETRD USTR EG
SUBJECT: EGYPT: ANTI-COMPETITIVE TELECOMUNICATIONS PRACTICES

REF: A. STATE 1035
¶B. 2006 STATE 202978

Sensitive but unclassified, not for Internet distribution.

¶1. (SBU) Summary: For over a year, Egyptian telecommunication regulators have promised to offer new licenses for international connectivity, in accordance with commitments undertaken when Egypt joined the World Trade Organization (WTO), but have yet to do so. The GOE may be delaying in order to protect jobs at state-owned Telecom Egypt, maximize revenues from the sale of licenses, and/or out of fears of creating chaos in the market. Egyptian regulators say they will eventually provide new international licenses but will limit their number, which would not meet Egypt's WTO commitments. End summary.

Foot-Dragging on WTO Commitments

¶2. (U) At the time of its WTO accession, Egypt agreed to open its international telecommunications connectivity market to competition, putting no limits on the number of international origination and termination providers, by January 1, 2006. State-owned Telecom Egypt's monopoly over this service officially expired on January 1, 2006. Since then, however, no licenses have been granted, although Minister of Communication and Information Technology (MCIT) Tarek Kamel and Executive President of the National Telecommunications Regulatory Authority (NTRA) Amr Badawi have consistently promised that a limited number of such licenses would be offered "within a few months."

¶3. (U) Engineer Amr Hashem, the telecom sector advisor to Minister Kamel, and Dr. Badawi told A/USTR Donnelly in late January that, when the NTRA offers international connectivity licenses ("in about a month"), they may offer them only to mobile phone companies or Internet service providers (ISPs). Local media has consistently reported that regulators would limit licenses to the current mobile operators or offer only a limited number for auction. ICT contacts opined that Telecom Egypt increased its stake in Vodafone Egypt, one of Egypt's two operating mobile phone companies, to 49 percent in late 2006 for just this reason.

¶4. (SBU) U.S. company AllVoice complained of such license restriction in the 2006 annual USTR section 1377 telecom trade agreements review process (refs). AllVoice, in its attempt to establish a voice over Internet protocol (VOIP) call-center in Egypt, ran afoul of a law forbidding international VOIP origination and termination with any land- or mobile-line. This law, in place for "national security reasons" according to Hashem, effectively criminalizes a technology that simplifies provision of international calling

services. Hashem told A/USTR Donnelly that AllVoice's problems stemmed from its disorganized and demanding requests, but this case shows that Egyptian regulators are dealing with requests on a one-by-one basis instead of adhering to the substance of their commitments.

Why the delay?

¶5. (U) Job losses: Egyptian regulators are hesitating to offer licenses in part because they are walking the tight-rope between market liberalization and hurting Telecom Egypt, with potential resultant job losses. Telecom Egypt, Egypt's only fixed-line and international connectivity service provider, employs approximately 120,000 Egyptians and is still 80-percent government-owned. Mohamed Elnawawy, vice president of Telecom Egypt for strategic studies, told econoff that Telecom Egypt's international connectivity service is one of its few profitable sectors, and subsidizes other sectors that operate at a loss.

¶6. (U) Maximizing revenues: In recent years the GOE has earned significant revenues from auctioning licenses and privatizing state-owned companies. Most notably, the license for the country's third mobile operator sold in 2006 for LE 16.7 billion (USD 2.9 billion), which was significantly more than the GOE had expected. The GOE now seems intent on repeating this success, and may be going slowly to best determine how gain the most from international communications licenses.

¶7. (U) Fear of market chaos: In delaying the opening of the international telecom services market, telecom regulators seem to have drawn a lesson from opening Egypt's ISP market. When ISP services were opened to competition, new companies flooded the market. Now, ICT contacts told econoff, the GOE is regulating artificially low prices for Internet services to keep those firms in business, thus avoiding job losses that could be blamed on market liberalization. This has diminished overall quality of service and stifled innovation in the market. By limiting new international licenses, the GOE may be trying to avoid a similar problem.

COMMENT

¶8. (SBU) In the ICT market, as in other areas of the Egyptian economy, fears of short-term job losses are weighed carefully against potential benefits of liberalization. Egyptian ICT officials argue that in liberalizing at all, Egypt is moving down the path to complete reform, albeit at a slower pace than the USG might desire. This does not change the fact that proposed resolutions, even when implemented, will still limit competition in the market.

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